

# DIALOG SEARCH NOTES

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**A Hobson's choice for card marketers**

Borowsky, Mark

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TEXT:

Say "data-base marketing" to a room full of credit card executives, and you're likely to hear a chorus of approval. While the idea isn't new--card issuers have been using prospect lists to whittle down direct-mail campaigns for years--bringing together dozens of pieces of information to target cardholders isn't something that most card marketers have done.

Most have never had to. Up until the last few years, mass-marketing campaigns snagged millions of new customers, while card profits soared. Debt collection, portfolio acquisition, and cost controls represented the real work.

In addition, the technology was too expensive. Only the very largest issuers could afford the computing power to keep track of thousands or millions of cardholder files, and then cross-reference them. Even then, the technology fell short of expectations.

Today, it's a much different world. The credit card market is nearing saturation, and "mass-marketing campaigns don't work any more," says one credit card executive. Credit cards are still a high-returning asset, but those returns have steadily declined, and issuers are working on retaining accounts more than ever before. They're also trying to pluck the best accounts from other issuers rather than generate new ones that may not be profitable.

So, exit mass marketing. Enter data-base marketing. At the same time card companies are starting to hunger for new tools that can pinpoint highly profitable prospects, the cost of data-base marketing hardware and software has plummeted.

Data bases holding millions of cardholder files can be stored on personal computers. While some say setting up the hardware and software for a marketing data base can exceed \$500,000, others put the price much lower, around \$200,000 or lower for a small or medium-sized issuer. And performance has dramatically improved. "The technology has gotten so good and cheap," says James Rosenfield, chairman and chief executive of Rosenfield & Associates, a San Diego-based consulting firm.

## STUNNING RESULTS

By all accounts, data-base marketing can help retain accounts, as well as identify a competitor's best cardholders. The results can be stunning. Using a complex data base, Signet Banking Corp. has increased its portfolio size from \$2.5 billion to \$5.5 billion, while adding 1.2 million accounts over the past year. Other issuers known for their database marketing, such as First Deposit Corp. and MBNA Corp., have among the highest returns in the industry. Perhaps looming largest is American Express Co., with its vaunted customer information files.

Unfortunately, it's not as simple as buying data-base software and typing in names. A full-fledged effort, card marketers say, still requires

huge labor costs and infinite patience. Indeed, data-base marketing programs may become the new necessary evil of the credit card business. Despite recent improvements in price and performance, they cost more than expected. They aren't easily installed. They still may not deliver the results a card issuer expects.

Some efforts have stumbled because of unrealistic expectations of performance and the amount of work needed to set up a data-base marketing system. And, while card-industry watchers say the future of credit card marketing lies in data bases, data-base marketing is not a perfect tool. Used in combination with credit scoring or other predictive models, it can improve portfolio performance, but it doesn't perform as well as a stand-alone means to generate prospects.

But card marketers, sensing they have to mine all that computerized cardholder information to remain competitive, are undeterred. Estimates of the number of issuers using data bases for marketing vary greatly. Some estimates peg half of the top 10 issuers with advanced data-base marketing programs; others say 20 out of the top 50 actively use data bases.

Nonetheless, the number of issuers using data-base marketing has exploded over the past five years, say observers. "Everybody's using data in some way form to drive marketing," says an executive at a data base marketer.

#### DETAILS

Typically, a credit card issuer will buy a data-base marketing system from a vendor, plugging customer information into it and customizing the data base for the issuer's own needs. The data base can cross-reference dozens of pieces of customer information against millions of names, enabling the issuer to pinpoint potential cardholders in ways a list of creditworthy names or standard demographic data do not.

For example, a data base could give the names of all the single female homeowners living in the 60657 zip code, with incomes over \$80,000, debt payments under 20% of monthly income, who own two or more credit cards and have a credit risk score over 500. That gives the issuer the power to find prospects who don't meet a one-criterion test and to tailor an offer to a particular consumer.

"It isn't mass marketing, it isn't segmented marketing, it's individual marketing," says Warren Wilcox, an executive with Fair, Isaac and Co. Wilcox joined the credit-scoring software developer six months ago from Household International after helping make Household's GM MasterCard the fastest-growing card in history.

Most credit card executives don't have to be convinced that they should market using a data base. Much of credit card marketing has been through direct mail, a traditional user of data bases. "You don't have to sell the idea of a data base to a credit card manager," says a bank direct-marketing manager.

The appeal of data-base marketing is twofold: It enables an issuer to market to individuals while cutting marketing costs. Using database marketing, combined with predictive models, an issuer can find potential cardholders who are likely to use a card once they get it. Issuers can distinguish the most profitable accounts and give more attention to them than unprofitable ones.

What makes data-base marketing particularly amenable to credit cards is that issuers already have proprietary information on their cardholders. They know cardholders' buying patterns, income, and credit history, and they can combine all that with information from other areas of the bank.

"The information (credit card operations) have is so detailed," says Carole Klenke, marketing information manager for First Commerce Corp. in New Orleans, which recently won an award from a trade journal for its customer data base. "They can go in and see where people spend their money, how much, and whether they pay their bill on time."

#### RETENTION TOOL

That access to customer information makes data bases a powerful

retention tool. Indeed, many industry experts say that retention is where data-base marketing will prove its worth. The information a data base generates can be used with predictive models and artificial-intelligence programs, such as neural networks, to predict future behavior. Such systems can find the most profitable customers and predict those likely to leave.

And with retention programs, issuers are dealing with existing accounts. That means there's already plenty of behavioral information to work with. "It's very different between attrition and acquisition," says Richard Hale, vice president of financial services for data-base marketing company Epsilon Data Management in Burlington, Mass. Epsilon is an American Express subsidiary with 800 employees. "(With acquisitions), you're dealing with a prospect--you don't have as much consumer behavior data as you do with your own customer."

At the same time, some issuers still forget that it's more expensive to recruit a new customer than to keep current ones. Says Randall Richardson, executive vice president of sales and marketing at Denver-based Customer Insight Co., a database marketing firm: "Banks should be using data-base marketing on a retention basis, as opposed to selling more of what they've got."

Even so, few card operations could justify an investment in database marketing systems unless they pulled in new accounts--cardholders who have no other affiliation with the issuer. The effectiveness of data-base marketing in recruiting new customers is a point of some debate. Nevertheless, many banks who have used data-base marketing for signing new accounts--and who are willing to talk about it--have had good results, if not as spectacular as Signet's.

Premier Bank, a small regional bank based in Baton Rouge, La., sold its credit card portfolio in 1987 but decided to re-enter the business in 1991. Using its database marketing system to generate leads, Premier now has 27,000 cards in circulation and \$30 million in outstandings--tiny, to be sure, but not bad for a small bank in three years.

#### PROSPECTING

Chase Manhattan Corp. used database slicing and dicing to make a dent in the college card market, and it worked well enough that Chase is looking to expand the technique to the whole portfolio. "We wanted to test in a small market first," says Soo C. Chung, vice president in charge of acquisition management at Chase Bankcard Services.

Data bases can find the diamonds amidst the lumps of coal. Jeff Hennessy, vice president of portfolio management and scoring technologies at CoreStates Bank of Delaware, says CoreStates can identify good prospects in high-risk groups who might otherwise be rejected. That's because the data base provides information that overrides a low credit score. "If anything, you could probably get away with a lower credit-risk score," says Hennessy. "For a given credit-risk score, you've pulled out someone from that group who is better than others."

Using information gleaned from data bases, issuers can target not only the cardholders most likely to respond to an offer or pay on time, but the cardholders who will be the most profitable. That requires predictive models and a lot of information gathering. "Banks can get smarter on how they build models by making them not only delinquency-based, but profitability-based," says Pat Nanda, president of Creative Business Decisions in Princeton, N.J. "You don't want to send out an invitation to join for someone who is going to get a card and sit on it."

But whether it's used for retention or acquisition, or both, a database system poses one big challenge to card operations: what to do with all that data. Some issuers will come up with detailed information that they didn't have without a data base, but market no differently from the past. Says Nigel Morris, a senior vice president at Signet: "The leverage is not in the data base. The leverage is in what (information) you can get, what you can manipulate."

Here card companies may be at a disadvantage. Bank and non-bank

financial institutions use data bases to help cross-sell products such as home-equity loans to savings-account holders. But credit card operations, set up as stand-alone entities, traditionally have not shared data with other areas of the bank, nor have other departments shared with them. "The systems have been built up differently, and there's problems that have cropped up," says CoreStates' Hennessy.

While such barriers are disappearing, industry observers say that unless a financial institution can fully integrate customer information from all departments, it isn't taking full advantage of the data base. A bank's retail customer file often has financial information that the card operation doesn't. An issuer can market cards to its mortgage holders who need a card, and mortgages to cardholders looking for a home.

"The credit card operations in the larger banks were set up as separate banks. The systems weren't built to accommodate each other," says consultant Rosenfield. "The real important thing to do is link the credit card file to the retail file."

But card issuers do have one singular advantage. With the advent of cobranding, linking credit card files to consumer products, card marketers have a potent new weapon in their marketing arsenal. Not only do they have demographic data and their own cardholders' histories, but they know cardholders' buying habits.

#### BEHIND THE BLITZ

The marketing blitz that helped propel the GM card to 5.25 million accounts in one year was not a mass-marketing campaign, Wilcox insists, but a highly targeted one using data-base information. Not only were different offers made to different consumers, but most of the direct-marketing dollars were weighted toward consumers who were likely both to respond to the credit card offering and buy a General Motors vehicle.

The sharing of information between a card issuer and the cobranding partner is becoming standard, issuers say (page 22). "A lot of banks are selling this information and technology as part of the deal," says Chase's Chung. "This is one of the weapons that credit grantors can use to make or break the deal."

For all its promise, however, data-base marketing may be hindered by cost, implementation, and labor issues. Hardware and software costs, though declining, represent only the beginning, warn credit card marketers. To make a data base work to its full potential, issuers will need time and resources far greater than fixed costs. Signet's data-base effort, as impressive as it has been, took several years to perfect and cost "many, many millions of dollars," Morris says.

"There are not a lot of banks willing to make that type of commitment," says CIC's Richardson. "Many banks talk about it, but they don't have the resources."

At the same time, just maintaining a data base can add a big cost burden. "The cost of building the data base is not a huge fixed cost, but maintaining the data base carries a high cost," Chase Bankcard Services' Chung says. "In order to reach a break-even point, you have to use the data base a lot."

Cost aside, issuers often don't implement a data-base marketing program properly. Details that can be thrown aside in board presentations, such as moving data from one area of a bank to another, loom large in the process. Training and implementation, not the hardware or software cost, are what really kill data-base marketing efforts. "Sometimes we spend too much time getting the data, massaging the data, finding out what's in the (customer) file and what it means," says Chung.

#### HELP WANTED

Getting qualified people is also a barrier. Robert Copeland, senior vice president and director of marketing for Winston-Salem, N.C.-based Wachovia Corp., says finding qualified help is the biggest obstacle to implementing Wachovia's database marketing system. "You've got to get experienced people," he says. "It's a new way to market." As a result,

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issuers have to pay top dollar for qualified talent, money they're often unwilling to spend.

Nonetheless, it's generally agreed that if an issuer doesn't have a data-base marketing system now, it will have one soon. While smaller issuers can manage with relatively inexpensive programs, experts argue national issuers will have to shell out big money to keep market share. "Can they afford data-base marketing? Perhaps the more realistic question is if can they afford not to," says Timothy Wishon, NationsBank senior vice president for data-base marketing. "If you want to maintain market share and grow, you're going to have to make these investments."

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